TD / NAR

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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division **RESOLUTION T-16756**
Carrier Branch **October 30, 2003**

R E S O L U T I O N

Resolution T-16756. Calaveras Telephone Company, Inc. (U-1004-C). General Rate Case Filing in compliance with G.O. 96-A, Paragraph VI, and Decision Numbers 01-02-018 and 01-05-031.

By Advice Letter No. 257, 257A and 257B filed on December 17, 2002, April 16, 2003, and July 9, 2003, respectively.

Summary

This resolution addresses the General Rate Case (GRC) filed by Calaveras Telephone Company (Calaveras) through Advice Letter 257, 257A and 257B in compliance with D.01-05-031. Calaveras proposes; a) no changes to its basic rates or charges, however the company proposes increases to some optional services and one-time charges to bring its prices more in line with that of the telephone industry, b) an intrastate rate of return (ROR) of 10.00%, the same rate of return granted in its previous GRC filing in 1995, and c) $2,297,102 in California High Cost Fund-A (CHCF-A) support for year 2004. This represents an increase in its California High Cost Fund-A (CHCF-A) draw for 2004 by 66% or an increase of $915,414 from its 2003 draw of $1,381,688.

This resolution authorizes total intrastate revenue in the amount of $4,759,769 for Calaveras for the test year 2004. This represents a reduction of $552,665 to Calaveras' estimate of $5,312,434 for total intrastate revenue for 2004. The Total Intrastate Rate Base amount for Calaveras is $8,823,406 with an overall Intrastate Rate of Return of 10.00% for the test year 2004. This resolution also authorizes the CHCF-A support for Calaveras for test year 2004 at $1,541,847. This amount represents an increase of $160,159 or 11.59% from its CHCF-A 2003 support of $1,381,688. This increase is due to adjustments made to revenues, expenses and rate base estimates.

Appendix A shows Calaveras' Test Year 2004 Total Company Results of Operations in AL 257, 257A and 257B. Appendix B compares the Telecommunications Division's (TD's) and Calaveras' Test Year 2004 Total Company Results of Operations before any CHCF-A adjustment. Appendix C compares TD's and Calaveras' Interstate and Intrastate Results of Operations before any CHCF-A adjustment to reflect the 10% intrastate ROR. Appendix D compares TD's and Calaveras' Intrastate Results of Operations estimates after Calaveras and TD's proposed CHCF-A increase and after TD's proposed adjustments. Appendix E shows TD's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

Background

Calaveras Telephone Company is a local exchange telephone carrier (LEC) serving approximately 4,541 access lines in Calaveras County and areas contiguous thereto, furnishing local, toll, and access telephone service. The Company's principal place of business is located in Copperopolis, California. Calaveras serves in two exchanges, Copperopolis and Jenny Lind.

In Decision (D.) 01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall[1] provision in 2003 for seven small LECs if they did not each file a General Rate Case (GRC) by the end of 2002.[2] Calaveras filed Advice Letter (AL) No. 257 on December 16, 2002, and Supplement AL Nos. 257A on April 16, 2003 and AL 257B on July 9, 2003 with a Test Year of 2004. The last GRC filed by Calaveras was in 1995 through an Application and its latest intrastate results of operations were authorized by Decision 97-04-034 dated April 9, 1997.[3]

In AL 257 and 257A Calaveras proposes a) no changes to its basic rates or charges, however Calaveras proposes increases to some optional services, b) an intrastate ROR of 10.00%, the same rate of return granted in its previous GRC application filing in 1995, and c) an increase in its CHCF-A draw for 2004 by 65% or an additional $899,961 from its 2003 draw.

[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

[2] The seven companies are Calaveras Telephone Company, Cal-Ore Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Hornitos Telephone Company, Kerman Telephone Company, and Pinnacles Telephone Company.

[3] In Decision 97-04-034, Calaveras Telephone Company was ordered to reduce its intrastate rates by approximately 10.85% or $343,366 in its 1997 test year, effective January 1, 1997. A 10% return on rate base found reasonable for Calaveras produces a 12.70% return on equity when applied to applicant's test year capital structure of 29.21% debt and 70.79% equity.

On July 9, 2003, Calaveras filed AL. No. 257B to include Public Programs audit expense for this rate case and to include Rural Telephone Bank (RTB) stock to the rate base. Calaveras also proposes an increase in its CHCF-A draw for 2004 by 66% or an increase of $915,414 from its 2003 draw of $1,381,688.

Notice/Protests

Calaveras states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 257 was published in the Commission Daily Calendar of December 20, 2002. Notice of the AL 257 filing was mailed to customers by bill insert on December 16, 2002. Notice of the Supplemental AL 257A was published in the Commission Daily Calendar of April 16, 2003. Notice of Advice Letter 257B was published in the Commission's Daily Calendar of July 23, 2003. The AL 257A was noticed to customers by bill insert on May 1, 2003. AL 257B was not noticed to customers because only minor revisions were made to the filing. No protest to these AL filings has been received.

TD held a Public Meeting in Copperopolis on May 5, 2003, at which time Calaveras was given an opportunity to explain its filing to its customers. Calaveras' customers were also given the chance to ask questions of Calaveras and the TD staff, and to comment on Calaveras' rates and services. Calaveras customers were given notice of the Public Meeting through bill insert. The notice of Public Meeting was also published in a local newspaper. No customers attended the Public Meeting.

Discussion

Results of Operations

TD calculates that Calaveras will earn in test year 2004 a total company overall rate of return of 8.46% at present rates as compared to Calaveras' calculation of 6.31%. Since TD concludes Calaveras is earning below TD's goal of an overall rate of return of 10.00%. TD's estimates for Calaveras reflect its revisions to Calaveras' estimates of revenues, expenses, and rate base as discussed below. Appendix B compares Calaveras' total company results of operations for test year 2004, as estimated by TD and Calaveras at present rates.

Total Operating Revenues

Calaveras' estimate of total company operating revenues at $6,250,556 exceeds TD's estimate of $5,981,335 by $269,221 or 4.50% (Appendix B, Line 9). Comparisons between TD's and Calaveras' estimates are described below.

In determining the test year total company revenues, TD accepted Calaveras' 4.59% percent increase used for revenue items that are derived from billings. This includes basic local Private Line, customer inside wire and state switched access revenues. Calaveras applied the 4.59% increase to recorded 2002 data to estimate 2003 and 2004 revenues for these items.

TD accepts the 4.59% growth rate increase used by Calaveras. Its acceptance is based on an evaluation of the historical average access line growth, field inspection of the areas served by Calaveras, and discussion with Calaveras County planning officials. The forecasted units for 2003 and 2004 were developed based on an overall access line growth rate of 4.59% per year. This growth rate represents the average growth rate for the recorded years 2000 through 2002. Calaveras estimated local revenues by multiplying the forecasted monthly units by the tariff rates and charges. Revenues for billings and collection services were developed using the same average growth rate of 4.59% per year. TD staff considers company's revenue estimates at present tariff rates and charges to be reasonable.

TD concurs with Calaveras' model, which estimates Interstate Access Revenue as a function of the total company rate base and expense amounts. The difference in the calculation of Interstate Access Revenues for Test Year 2004 results from differing estimates of Total Company Results of Operations between Calaveras and TD. TD's estimate of $1,444,100 is $164,484 or 11.39% lower than Calaveras' estimate.

Differences between Calaveras' estimate of CHCF-A revenue and TD's estimate result from the goal of each to balance Net Operating Income as 10% of Total Rate Base.

Calaveras' basic rates are at the 150% level of comparable California urban rates.[4] No changes are proposed to the basic service rates. However, Calaveras proposes to increase its optional rates and one-time service charges to bring them in line with the industry and in order to lower the draw from the CHCF-A fund. The new charges would result in an increase of $15,611. Since the service charge increases would bring the charges more in line with the industry, and also lower the draws on the CHCF-A. This proposal is reasonable.

Calaveras proposes the following rate increases and TD finds them to be reasonable:

- Increase the Off-Premise Extension Service rate from $1 to $2 in Schedule No. A-3.

[4] D. 91-09-042 establishes that draws from the CHCF-A require that a small LEC 's basic rates shall be increased, the increased rate is not to exceed 150% of comparable California urban rates.

- Increase the Directory Listing for business from $0.75 to $1.00 and residential listing from $0.40 to $0.80 and Interexchange Carrier Information Listing rates from $50.00 to $100.00 in Schedule No. A-13.

- Increase Caller ID selective or Complete Blocking Change Charge in Schedule No. A-15, Rates (5) (b) from $7.95 to $8.00 after the initial and one free change charge.

- Increase the Multi-Element Service Charges in Schedule No. A-16 for connecting new or additional service from $15.85 to $18.00, for changing existing service or adding new or additional service other than central office lines from $7.95 to $8.00, for Central Office Connection work per line or trunk from $16.35 to $25.00 and Restoral Charge per line or trunk from $16.35 to $25.00.

- Increase line extension charges in Schedule No. A-20 in the event of future customers. The first 100 feet of fraction thereof was increased from $50 to $100 and each additional foot thereafter was increased from 50 cents to $1.

- Increase the Visit Charge in schedule No. A-21 for customer premise from $39.65 to $45.00 during normal work hours (8:00 a.m. to 4.30 p.m., Monday through Friday) and from $49.55 to $55.00 for other than regular working hours. Also increase Inside Wiring Maintenance Service charges in Schedule No. A-26, and Intrabuilding Network Cable in Schedule No. A-32. Charge for normal hours (8:00 a.m. to 4.30 p.m. M-F) was increased from $40.00 to $45 and for other hours was increased from $50.00 to $55.

- Increase the Returned Check Charge in Rule No. 9 from $5 to $10.

Uncollectibles

Uncollectibles are based on bad debts associated with local revenue and intrastate access revenues. Calaveras estimates local bad debt at $3,834 and contends that it will remain consistent with historical figures. However, Calaveras explains that the, "Bad Debt on Intrastate Access Revenue was historically part of the settlement process and as such was absorbed by the settlement pools. Now that Calaveras is no longer in the settlement pool bad debt on intrastate access is a greater risk. This was highlighted by the recent bankruptcy [sic] of Worldcom and Global Crossing, which accounts for the large bad debt in 2002". Calaveras assumes that the intrastate access bad debt it incurred in 2002 of $57,113 due to the bankruptcy will continue through 2004.

TD does not agree with Calaveras' estimation for test year 2004 uncollectibles. Although TD finds Calaveras' estimate for local bad debt at $3,834 to be reasonable, TD does not find Calaveras' estimate for $58,000 for intrastate access revenue bad debt to be reasonable. The recent Worldcom and Global Crossing bankruptcies are a one-time occurrence and Calaveras will not incur similar bad debt on an annual recurring basis. TD therefore disallows $58,000 of bad debt associated with intrastate access revenue and estimates uncollectibles to be $3,834 for the test year 2004.

In the event that Calaveras incurs similar access revenue bad debt as the result of continued bankruptcy filings by interexchange carriers and does not receive remedy from applicable court decisions, Calaveras is then encouraged to seek remedy from the Commission for those lost revenue amounts. Calaveras may not seek remedy from the Commission for those debts incurred due to bankruptcy filings until the bankruptcy proceedings have been finalized and monies dispersed, if any. This delay is required to avoid the potential of Calaveras' double recovering the bad debt it has incurred as the result of bankruptcy filings.

Total Operating Expenses

Calaveras' estimate of total company operating expenses at $3,622,733 (less depreciation and taxes-income and other) is greater than TD's estimate of $3,068,476 by $554,257 or 19.54%. A comparison of TD's and Calaveras' estimates of total operating expenses for test year 2004 is shown in Appendix B. Differences between TD's and Calaveras' estimates are described below.

For operating expenses, Calaveras forecasted 2003 and 2004 expenses based on the following methodology. First, historical three-year average (2000 to 2002) percentages were developed for Labor (8.98%) and Non-Labor (3.16%) related expenses. Then, the three-year average percentages were applied to the 2002 sub-account details to generate 2003 forecasted expenses. Calaveras applied these percentages to sub-accounts for the Plant Specific, Plant non-Specific, Customer Operations, and Corporate Operations expense categories, based on details of each sub-account (i.e., Labor: Salaries & Wages, Benefits; Non-Labor: Rents, Clearances, and Other). The same percentages were then applied to the 2003 forecasted expense estimates to generate the 2004 Test Year expense estimates. Calaveras believes this methodology to be reasonable for a small company.

TD does not agree with Calaveras' estimated labor related and all other expense growth rates. The growth rate factor used by Calaveras is too high compared to ORA's labor and non-labor inflation factors (see footnote 7, page 7). Therefore, the difference between Calaveras' and TD's estimates is due to the use of different methodologies in projecting expenses.

TD used Calaveras' recorded expenses in terms of labor and non-labor expenses and applied the constant dollar method to estimate Calaveras' 2004 expenses. The constant dollar method is used to convert nominal dollars to inflation-adjusted figures. This is done by using inflation factors for each year and compounding them to 2002 dollars. The constant dollar method is applied to convert the price of a basket of utility purchases in various years to a selected base year price. While expenses have been increasing in nominal dollars, when one applies the constant dollar method and adjusts the recorded figures to base year constant dollars, there is less of a variance and in many cases, the inflation-adjusted figures remain relatively flat. The Commission in Siskiyou's 1997-test year rate case proceeding discussed and adopted TD's use of the constant dollar methodology. In Finding of Fact 6 of Resolution T-16006, the Commission found "…TD's methodology in estimating expenses reasonable and adopt TD's recommended test year 1997 expenses contained in Appendix A." [5]

TD used Calaveras' recorded expense figures from the annual reports for the years 2000, 2001 and 2002[6] and then applied the recorded inflation factors for labor and non-labor for each year to convert the recorded expenses to constant 2002 dollars[7]. It then took the average of the inflation-adjusted amounts for those years and used the average amounts as its base estimates. It then applied the cumulative inflation factors for 2003 and 2004 to the base estimate to arrive at the test year 2004 estimate.

Calaveras also included $5,134 rate case expense that it incurred in 2003 due to an audit conducted by the Public Programs Branch. Since this audit does not occur annually, this rate case expense should be amortized over a three-year period. Three years are a reasonable period since CHCF-A funding remains at 100% only for the first three years after a GRC, at which time the funding is automatically reduced by 20%. Conceivably, a Small LEC could file a GRC after every three years to retain 100% CHCF-A support. Therefore, TD recommends that the rate case expense in the amount of $1,711 ($5,134 amortized over three years) should be included in the 2004 test year expense.

Based on the Constant Dollar Method (CDM), and including the audit expense amortized over three years, TD now recommends a 2004 test year intrastate total operating expense of $3,599,980, which is $771,954 or 21.44% less than Calaveras' estimate of $4,371,934. TD concludes its estimates are more reasonable than Calaveras', because TD incorporated inflationary increases and normalized the fluctuations in the expenses.

[5] At page 5 of Resolution T-16006, the Commission stated, "Generally for traditional GRCs, the Commission adopts the constant dollar method".
[6] Form M Schedule I-1 (FCC ARMIS 43-02 Report Format) of Calaveras' Annual Reports for 2000, 2001 and 2002.
[7] TD used the Office of Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors for 2002-2004 from the January 2003 Global Insight U. S. Economic Outlook as follows:

Year	Labor	Non-Labor
2000	1.030	1.035
2001	1.030	1.000
2002	1.028	1.000
2003	1.016	1.006
2004	1.023	1.012

To calculate depreciation expenses, both TD and Calaveras utilized the same methodology and depreciation rates previously adopted by the Commission for Calaveras in D. 97-04-034. Depreciation expense was computed using TD's plant in service estimates for 2003 multiplied by the previously adopted depreciation rates to derive the 2003 figure. To estimate the 2004 figure, TD used its projected depreciable plant in service for 2004 and applied the adopted depreciation rates previously approved by the Commission for Calaveras.

Taxes

The difference in tax estimates between Calaveras and TD is due to differences between their estimates of revenue and expense. Both TD and Calaveras used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a Federal Income Tax rate of 34.00%. TD's estimate of 2004 Intrastate Operating Taxes (including other taxes) of $597,848 is 6.1% lower than that computed by Calaveras

Rate Base

TD examined Calaveras' Rate Base components, which include Telephone Plant-in-Service, Telephone Plant-under-Construction, Materials & Supplies, RTB Stocks, Customer Deposits, Working Cash and Deferred Income Taxes. TD disagrees with Calaveras' estimate of Telephone Plant-in-Service.

Calaveras' proposed plant additions for 2003 and 2004 are $3,850,620 and $2,028,103 respectively. Telephone Plant in Service (TPIS) was forecasted based on the Calaveras' Capital Budget. The Capital Budget summarizes additions and retirements to plant for the periods 2003-2004. TD's estimate of plant additions for 2003 and 2004 are $2,619,211 and $2,965,034, respectively. TD reviewed and analyzed each item of Calaveras' budgeted plant additions, compared them with recorded plant additions for 2000 through 2002 and then arrived at its estimates by applying various techniques, such as averaging, regression analysis and growth factors.

Calaveras proposed a new addition in its plant addition budget, buried cable, in the amount of $2,133,340 for 2003 and zero dollar for 2004. This item alone accounts for 55% of the company's total budgeted plant addition for 2003. TD then reviewed the plant additions since 2000 and noted that the proposed 2003 plant additions amount is over 2.7 times the plant additions made in 2002. TD spreads the $2,133,340 buried cable plant additions amount equally in Calaveras' rate base for 2003 and 2004. TD made minor adjustments to other plant additions. The difference between the plant addition amounts between Calaveras and TD result from the application of the different estimating methods used by each.

Calaveras included $91,375 Rural Telephone Bank (RTB) stock when it borrowed funds from the RTB. Though the loan was provided at a lower cost, Calaveras is required by

RTB to use a certain amount of the loan to purchase stock in the RTB. Calaveras included the stock in the rate base to compensate for the required investment. Furthermore, Part 65 of the Code of Federal Regulations includes RTB stock as a component of the rate base. Therefore, TD agrees with Calaveras to include $91,375 RTB stock in the rate base.

Working Cash: Both Calaveras and TD used the simplified method described in the CPUC's Standard Practice U-16 to arrive at the working cash estimate. TD's Total Company Working Cash for test year 2004 estimate is $286,229 or 17.64% lower than that computed by Calaveras, due to TD's lower expense estimates.

Materials and Supplies (M&S): Calaveras' materials and supplies (M&S) amount was estimated by taking the ratio of the 2002 average M&S to the 2002 average TPIS. Calaveras then applied this ratio (2.06%) to the forecasted 2003 and 2004 TPIS to derive the 2004 M&S estimate. TD performed a regression analysis of M&S recorded data for the years (1997-2002) and based on the observed trend, Calaveras' M&S estimate of 2.06 average ratio for test year 2004 is reasonable. TD then applied this ratio to its forecasted TPIS for 2003 and 2004 to arrive at its M&S estimate for those years. Differences in TD's and Calaveras' estimate of 2004 M&S are due to differences in TPIS. TD recommends that the average Total Company M&S of $411,703 be included in the rate base.

Calaveras' Deferred Income Taxes (DIT) was estimated by taking the ratio of the 2002 average DIT to the 2002 average TPIS. A negative 3.93% ratio was then applied to the forecasted 2003 and 2004 average TPIS to derive the 2004 DIT. TD reviewed the five-year history (1998-2002) of DIT to TPIS. Based on this review, Calaveras' estimate of negative 3.93% ratio is reasonable. TD then applied this negative 3.93% ratio to its forecasted TPIS to derive its 2004 DIT. Differences in TD's and Calaveras' estimate of 2004 DIT are due to differences in TPIS. Therefore, TD recommends that the average Total Company DIT of $786,442 be included in the rate base.

Separations

Calaveras provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Calaveras' property serves both jurisdictions, the utility's expenses, taxes, investments, and reserves are allocated (separated) between interstate and intrastate services according to FCC rules. TD reviewed Calaveras' separation factors and finds them to be reasonable. Appendix C compares Calaveras' and TD staff's total company (interstate and intrastate) results of operations for test year 2004 using these separation factors.

Cost of Capital

Calaveras requests an overall intrastate rate of return of 10.00%. This is the same rate of return that was authorized by D.97-04-034 for its last general rate case filing for test year 1997.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. As a matter of practice, Decision D.97-04-034 in A.95-12-075[8] adopted an 'overall' rate of return of 10.00% for all rural ILECs. The risks faced by rural ILECs appears similar today as in the recent past, and therefore TD recommends that the Commission should approve Calaveras' request for an overall rate of return of 10.00% at this time.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in revenues. Appendix E shows TD's computation of Calaveras' net-to-gross multiplier. The net-to-gross multiplier of 1.66207 means that a change of $1,662 in gross revenue would be required to produce a change of $1,000 in net revenue. For Calaveras, based on a recommended intrastate rate base of $8,823,406 and rate of return of 10.00%, the recommended gross intrastate revenue requirement change required is an increase of $225,683.

CHCF-A Support

D.01-02-018 approved Settlement Transition Agreements (STAs) between Pacific Bell and the small Local Exchange Carriers (small LECs). Monies that Pacific Bell paid the small LECs through toll and access pool settlements were replaced by authorized draws from the CHCF-A. The CHCF-A itself was originally established by D.85-06-115 as a means of subsidizing reasonable basic exchange rates for the customers of small LECs that adopted Pacific's statewide average toll, toll private line, and access rates (settlement pools). D.01-02-018 required the small LECs' replacement funding for the STAs be subject to the same rules that apply to current draws from the CHCF-A, namely, basic residential rates shall be increased to a ceiling equal to 1.5 times the urban rate as necessary, and both the means test and the waterfall provisions should apply.

TD calculated Calaveras' CHCF-A support for test year 2004 at present rates to be $1,332,270. The CHCF-A 2004 support is derived from using Calaveras' 2003 initial Draw of $1,381,688, adding the $1,025,391 NECA estimated USF Federal support for 2003, and subtracting Calaveras' projected 2004 USF Federal support of $1,074,809[9].

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[8] In D.97-04-034 the Commission authorized Calaveras Telephone Company a 10.00% return on rate base for it's 1997-test year as appropriate in A.95-12-075 (Calaveras' 1997 General Rate Case application).

[9] Federal USF support is based on the 2003 projected payments for the California Exchange carriers as filed by the National Exchange Carriers Association, Inc. (NECA) on October 1, 2003 with the Federal Communications Commission.

The intrastate results of operations at present rates show that Calaveras registers an intrastate rate of return of 8.46% (Appendix C, column F). Appendix D shows Calaveras' intrastate results of operations using the 10.00% intrastate rate of return.

TD's computation of Calaveras' CHCF-A requirement is $ 1,541,847 based on TD's projected revenues (including rate design), expenses, rate base and overall intrastate rate of return of 10% for test year 2004.

COMMENTS:

In accordance with P.U. Code Section 311 (g) TD mailed a copy of the original draft resolution on September 30, 2003 to Calaveras and other interested parties.

On October 14, 2003 Cooper, White & Cooper, LLC (Cooper) filed timely comments on behalf of Calaveras. Cooper raises the following issues in the draft resolution:

1. TD's understatement of the test year expenses due to the use of constant dollar method.

2. TD's exclusion of Rate Case Expense.

3. TD's understatement of Depreciation Expense.

4. TD's exclusion of Uncollectibles for Intrastate Access Revenue.

5. TD's improper spread of Buried Cable Plant Additions between 2003 and 2004

On the use of constant dollar methodology (CDM) in estimating expenses, Calaveras argues the draft resolution's 2004 test year expenses (not including depreciation) are less than Calaveras's actual recorded expenses for 2002. Calaveras asserts that it is completely implausible to assume that a company experiencing increasing costs over the last several years will realize lower expenses than it incurred two years previous. Calaveras also states that it is inconsistent for TD and to Calaveras's detriment, to assume significant growth in revenues yet negative growth in expenses.

Calaveras noted that the Commission had rejected the use of CDM when the forecast of test year expenses was below the expenses incurred in the last recorded year and cites examples of Water rate case and PG&E rate case decisions.

Furthermore, Calaveras lists significant increases in expense accounts that have been growing faster than the normal inflation rate used by CDM, such as medical benefit costs and workers compensation insurance as well as vehicle license costs.

While continuing to support its original expense estimates, Calaveras proposes two alternative forecasting methodologies that would take into account the expense increases previously described. Calaveras' alternative methodology of linear regression analysis results in a test year 2004-expense level of $3,328,858. The second alternative proposed by Calaveras is the budget method. Under this method, the analysis begins with actual 2002 operating expenses of $3,109,108 and applies an inflation factor of 3% for 2003 and 2004. Calaveras states that ORA relied on a 3% escalation factor in both the Kerman Telephone general rate case and the Evans Telephone Company general rate case.

With regard to the disallowance of the Rate case expense of $50,000 in test year expenses, Calaveras points out that TD overlooked this test year adjustment.

With regard to the understatement of Depreciation expense, Calaveras notes that TD inadvertently calculated depreciation using CDM instead of calculating the depreciation expense in a given year based on the telephone plant-in-service that year multiplied by the adopted depreciation rates.

With regard to the exclusion of Uncollectibles for Intrastate Access Revenue, TD disallowed $ 58,000 in bad debt associated with intrastate access revenues; in its comments on the draft resolution, Calaveras acknowledges that TD encourages it to seek remedy from the Commission for lost access revenue recovery, but argues that TD does not specify a procedure for securing such a remedy outside the context of a general rate case filing.

Calaveras proposes the Commission include an ordering paragraph specifying the process for Calaveras to be made whole for all uncollectible access revenue. Calaveras suggests that the Commission should order Calaveras to include net uncollectible access revenue in its annual CHCF-A filing.

With regard to improperly spreading Buried Cable Plant Additions between 2003 and 2004, Calaveras states that in response to a data request in August, Calaveras provided an updated breakdown of buried cable additions of $1,430,579 for 2003 and $702,763 for 2004 and claims that TD overlooked this information and thus understated 2004 rate base and depreciation expense associated with the rate base.

TD's Responses to Comments:

Although Calaveras notes that the draft resolution's 2004 test year expenses are less than its actual, recoded expenses for 2002, this observation does not justify Calaveras's 2002 expenses, nor is it sufficient grounds to discard the CDM for all expenses. Because the 2002 recorded cost have not been adjusted for ratemaking purposes, and the company should have incentives to control costs, the 2002 actual expense should not be the primary factor in forecasting test year expenses as proposed by Calaveras in its alternative methodology.

On the issue of the use of the constant dollar method, TD finds no reason to deviate from this Commission approved and accepted methodology. In 1997 small telephone companies GRC's, TD used CDM to forecast test year expenses for Calaveras, Cal-Ore, Siskiyou and Ducor Telephone Co. Again in 2002, TD used CDM for Siskiyou and Volcano Telephone Company's GRC filing and does not find any reason to change its methodology for Calaveras's 2004 test year GRC.

On the argument that the constant dollar method does not take into account rising expenses, the amount of $3,109,108, which is used as the base year figure already incorporates actual growth for 2000, 2001 and 2002.

On the issue of the exclusion of Rate Case Expense, TD has reviewed and made the necessary corrections to Calaveras's 2004 test year expense accounts.

On the issue of understatement of Depreciation Expense, TD concurs with Calaveras that it was an inadvertent omission and TD has reviewed and made the corrections to Calaveras's 2004 Depreciation expense account.

Regarding the issue of excluding uncollectibles for Intrastate Access Revenue, TD's response is that to allow Calaveras to recover the net uncollectible revenue from its CHCF-A annual filings would not ensure that Calaveras had made every reasonable effort to collect access revenues from either bankrupt carriers and / or from those carriers that are overdue in paying access revenues to Calaveras. TD reiterates its position in the draft resolution that Calaveras not seek remedy from the Commission until bankruptcy proceedings (if any) have been finalized and monies dispersed. Only then does TD recommend that Calaveras file a specific application with the Commission to seek recovery of net uncollectible access revenues. TD still firmly believes that today, there are sufficient safeguards in place to mitigate and minimize the effects of a situation similar to that incurred by WorlCom.

We agree with TD's position, and decline to allow at this time, Calaveras' request to seek recovery of net uncollectibles access revenues in annual CHCF-A filings. If at any time Calaveras believes its overall revenues are eroded such that it is in a precarious financial position, Calaveras should file a specific application to seek recovery of any net uncollectibles access revenues. Absent this application filing, we may give consideration to reviewing Calavaras' net historical uncollectible access revenues in its next GRC filing provided Calaveras can fully substantiate that it has exhausted all avenues in attempting to collect from delinquent carriers.

However, for Calaveras, the company has specifically identified $72,571 and $9,397 in total company' uncollectible revenues associated with the bankruptcies of

MCI/WorldCom and Global Crossing respectively. For the MCI/WorldCom proceeding, Calaveras indicates that it has recovered $27,797 to date leaving the remaining balance of $59,747 to be collected. Of the $59,747, the actual unrecovered "intrastate" amount is $31,950. Calaveras also provided documented substantiation that it was waiving further rights to any more monies from the MCI/WorldCom bankruptcy proceeding. Given this, TD believes that it is appropriate to include the $31,950 as one-time uncollectible revenues for 2004 only. We concur in TD's recommendation and will provide recovery for the $31,950 in 2004 only. For 2005 and beyond, we will require TD to make adjustments to the CHCF-A fund to reduce the draw by $31,950.

On the issue of improper spreading of buried cable plant addition for 2003 and 2004, TD is right on target of allowing 50% for 2003 and 50% in 2004 since the expected completion by 2003 is 67%. TD however made a verbal request to Calaveras to update the status of what percent is actually completed and in service as of 9/30/03. TD received no response and will therefore keep the original estimate of allowing 50% in 2003 and the remaining 50% in 2004.

TD also proposes two additions on its own initiative to the draft resolution mailed to interested parties in September 2003. The first involves updated Universal Service Fund (USF) support amounts authorized for TY 2004 from the National Exchange Carriers Association (NECA) and received by TD on October 2, 2003. The new USF amount for Calaveras is $1,074,809 and TD has updated its calculations involving USF amounts in Calaveras's Results of Operations tables.

In discussions with Calaveras since the mailing of the draft resolution in September, TD also agreed that Calaveras may use its next Supplement Number for Calaveras's GRC advice letter filing to submit tariff sheets for an updated Table of Contents, revised tariff sheets using the latest tariff sheet numbers, and updated contents within the tariff sheets where there is reference to California Teleconnect Fund (CTF) funding. TD recommends that these new tariff sheets be made effective January 1, 2004.

We concur with TD's recommendations for these additional changes.

Findings

1. Calaveras filed its GRC on December 17, 2002, with a Test Year of 2004 in compliance with Decision 01-05-031.

2. Calaveras requests the following for test year 2004:

    - An increase in its California High Cost Fund-A (CHCF-A) draw for 2004 by support of $2,297,102;

- An intrastate rate of return of 10.00%, the same return granted to it in its last GRC filing in 1997;
- An Intrastate total operating revenue requirement of $5,312,434; and
- A total intrastate rate base amount of $9,405,002.

3. Telecommunications Division (TD) recommends the following for Calaveras for test year 2004:

    - A California High Cost Fund-A (CHCF-A) support of $1,541,847;
    - An Intrastate Rate of Return of 10.00%;
    - An Intrastate total operating revenue requirement of $4,759,769; and
    - A total intrastate rate base amount of $8,823,406.

4. Because of the WorldCom bankruptcy, there is a one-time uncollectible amount of $31,950. This will be added to the CHCF-A draw for 2004, but will be removed in 2005 (See Appendix D). With this addition the total 2004 CHCF-A support is $1,573,797.

5. Because of the The differences in the revenue, expense, and rate base estimates between Calaveras and TD result from the use of different methodologies and assumptions for estimating revenue, expense and rate base estimates.

6. The Commission finds TD's methodology in estimating revenues to be reasonable. The Commission therefore adopts TD's recommended intrastate revenues as shown in Appendix D.

7. The Commission accepts TD's recommended overall intrastate rate of return of 10.00% for Calaveras for test year 2004.

8. The Commission finds Calaveras' depreciation rates previously adopted by the Commission, as part of its 1997 general rate case acceptable for ratemaking purposes for test year 2004.

9. The Commission finds TD's methodology of using the constant dollar method in estimating expenses to be reasonable and adopts TD's recommended test year 2004 expense estimates contained in Appendix D.

10. The Commission finds TD's methodology in estimating rate base to be reasonable. The Commission therefore adopts TD's recommended intrastate rate base as shown in Appendix D.

11. The Commission finds TD's recommended $1,541,847 CHCF-A support for Calaveras for 2004 to be acceptable. The $1,541,847 CHCF-A support is based on the

Commission's adoption of TD's Intrastate Results of Operations for Calaveras for test year 2004.

12. The Commission finds Calaveras' request for revenue increase of $15,611 due to increases to some optional services and one-time charges to bring its prices more in-line with the telephone industry to be reasonable.

13. Commission approval is based only on the specifics of this Advice Letter.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2004 identified in Appendix D, column (E) are adopted for Calaveras Telephone Company, Inc.

2. The overall intrastate rate of return of 10.00% is adopted for Calaveras Telephone Company, Inc., for test year 2004.

3. The depreciation rates submitted by Calaveras Telephone Company, Inc., in support of its General Rate Case Advice Letter No. 257 are adopted for ratemaking purposes for test year 2004.

4. The Calaveras Telephone Company, Inc.'s CHCF-A draw for 2004 is $1,573,797 including a one-time amount of $31,950 due to the World/Com Bankruptcy.

5. Calaveras Telephone Company, Inc., is granted authority to revise the tariffs for the changes described in AL Nos. 257, 257A and 257BB using the next Supplement Number for that AL. The revised tariff sheets using the latest tariff sheet numbers, and updated contents within the tariff sheets where there is reference to CTF funding. These tariff sheets shall be effective on January 1, 2004, if accepted by the Telecommunications Division staff.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission at its regular meeting on October 30, 2003 adopted this Resolution. The following Commissioners approved it:

WILLIAM AHERN
Executive Director

APPENDIX A
CALAVERAS TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
TEST YEAR 2004
AT PRESENT RATES

		AL 257 Filed 12/17/2002	Diff	AL 257A Filed 4/16/2003	Diff	AL 257B Filed 07/09/2003
		(a)	(b)= (c-a)	(c)	d=(e-c)	(e)
	OPERATING REVENUES					
1	Local Rev.	1,053,128	106,509	1,159,637	0	1,159,637
	Intrastate:					
2	Access Rev.	914,882	8,401	923,283	0	923,283
3	Toll Rev.	0	0	0	0	0
4	Interstate USF	903,138	27,081	930,219	0	930,219
5	Interstate Access Rev.	1,567,056	36,565	1,603,621	4,963	1,608,583
6	Miscellaneous Rev.	49,714	1,357	51,070	0	51,070
7	CHCF - A	1,666,678	(27,081)	1,639,597	0	1,639,597
8	Less: Uncollectibles	(46,786)	(15,048)	(61,834)	0	(61,834)
9	Total	6,107,810	137,783	6,245,594	4,963	6,250,556
	OPERATING EXPENSES					
10	Plant Specific	1,019,133	122,613	1,141,746	0	1,141,746
11	Plt. Non-Spec.(less Depr.)	366,789	(31,801)	334,988	0	334,988
12	Customer Operations	585,032	1,211	586,243	0	586,243
13	Corporate Operations	1,556,029	(1,407)	1,554,622	5,134	1,559,756
14	Subtotal	3,526,983	90,616	3,617,599	5,134	3,622,733
15	Depr. & Amort.	1,337,333	(13,109)	1,324,224	0	1,324,224
16	Other Taxes	66,816	7,145	73,961	0	73,961
17	State Income Taxes	96,733	4,555	101,288	(16)	101,272
18	Federal Income Taxes	339,159	15,970	355,129	(53)	355,076
19	Total	5,367,024	105,177	5,472,201	5,065	5,477,266
20	Net Operating Income	740,786	32,606	773,393	(102)	773,290
	RATE BASE					
21	2001 - TPIS	20,205,053	550,985	20,756,037	0	20,756,037
22	2003 - TPUC	444,512	(10,756)	433,756	0	433,756
23	1220 - Mat. and Sup.	486,828	(59,415)	427,413	0	427,413
23a	RTB Stock	0	0	0	91,375	91,375
24	Working Cash	372,340	(36,094)	336,246	468	336,714
25	Less: Accum. Depr.	9,083,888	(119,859)	8,964,028	0	8,964,028
26	Less: Deferred Tax	671,786	144,667	816,453	0	816,453
27	Less: Customer Deposits	4,190	(1,982)	2,208	0	2,208
28	Total Rate Base	11,748,869	421,894	12,170,764	91,843	12,262,606
29	**RATE OF RETURN**	**6.31%**		**6.35%**		**6.31%**

APPENDIX B
CALAVERAS TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
TEST YEAR 2004
AT PRESENT RATES

				UTILITY EXCEED STAFF	
		CALAVERAS AL 257B	**TD**	**AMOUNT**	**PERCENT DIFFERENCE**
		(a)	(b)	c=a-b	d = c/b
OPERATING REVENUES					
1	Local Rev.	1,159,637	1,159,637	0	0.00%
	Intrastate:				
2	Access Rev.	923,283	923,283	0	0.00%
3	Toll Rev.	0	0	0	0.00%
4	Interstate USF	930,219	1,074,809	(144,590)	-13.45%
5	Interstate Access Rev.	1,608,583	1,444,100	164,484	11.39%
6	Miscellaneous Rev.	51,070	51,070	0	0.00%
7	CHCF - A	1,639,597	1,332,270	307,327	23.07%
8	Less: Uncollectibles	(61,834)	(3,834)	(58,000)	1512.78%
9	Total	6,250,556	5,981,335	269,221	4.50%
OPERATING EXPENSES					
10	Plant Specific	1,141,746	988,667	153,079	15.48%
11	Plt. Non-Spec.(less Depr.)	334,988	259,629	75,359	29.03%
12	Customer Operations	586,243	465,406	120,837	25.96%
13	Corporate Operations	1,559,756	1,354,773	204,983	15.13%
14	Subtotal	3,622,733	3,068,476	554,257	18.06%
15	Depr. & Amort.	1,324,224	1,277,156	47,068	3.69%
16	Other Taxes	73,961	73,961	0	0.00%
17	State Income Taxes	101,272	130,630	(29,358)	-22.47%
18	Federal Income Taxes	355,076	458,010	(102,934)	-22.47%
19	Total	5,477,266	5,008,233	469,033	9.37%
20	Net Operating Income	773,290	973,103	(199,812)	-20.53%
RATE BASE					
21	2001 - TPIS	20,756,037	19,993,094	762,944	3.82%
22	2003 - TPUC	433,756	417,812	15,944	3.82%
23	1220 - Mat. and Sup.	427,413	411,703	15,710	3.82%
23a	RTB Stock	91,375	91,375	0	0.00%
24	Working Cash	336,714	286,229	50,485	17.64%
25	Less: Accum. Depr.	8,964,028	8,910,553	53,475	0.60%
26	Less: Deferred Tax	816,453	786,442	30,011	3.82%
27	Less: Customer Deposits	2,208	2,208	0	0.00%
28	Total Rate Base	12,262,606	11,501,010	761,596	6.62%
29	**RATE OF RETURN**	**6.31%**	**8.46%**		

APPENDIX C
CALAVERAS TELEPHONE COMPANY
RESULTS OF OPERATIONS AT PRESENT RATES
INTERSTATE AND INTRASTATE
TEST YEAR 2004

	Calaveras AL 257B			**TD**		
	Total Company (a)=b+c	Inter-State (b)	Intra-State (c)=a-b	Total Company (d)=e+f	Inter-State (e)	Intra-State (f)=d-e
OPERATING REVENUES						
1 Local Rev.	1,159,637		1,159,637	1,159,637	0	1,159,637
Intrastate:						
2 Access Rev.	923,283		923,283	923,283	0	923,283
3 Toll Rev.	0		0	0	0	0
4 Interstate USF	930,219		930,219	1,074,809	0	1,074,809
5 Interstate Access Rev.	1,608,583	1,608,583	0	1,444,100	1,444,100	0
6 Miscellaneous Rev.	51,070	3,150	47,920	51,070	3,150	47,920
7 CHCF - A	1,639,597		1,639,597	1,332,270	0	1,332,270
8 Less: Uncollectibles	(61,834)	0	(61,834)	(3,834)	0	(3,834)
9 Total	6,250,556	1,611,733	4,638,823	5,981,335	1,447,250	4,534,086
OPERATING EXPENSES						
10 Plant Specific	1,141,746	284,066	857,680	988,667	245,980	742,687
11 Plt. Non-Spec.(less Depr.)	334,988	79,593	255,395	259,629	61,688	197,941
12 Customer Operations	586,243	121,763	464,480	465,406	96,665	368,741
13 Corporate Operations	1,559,756	400,857	1,158,899	1,354,773	348,177	1,006,596
14 Subtotal	3,622,733	886,279	2,736,454	3,068,476	752,510	2,315,966
15 Depr. & Amort.	1,324,224	325,097	999,127	1,277,156	313,542	963,614
16 Other Taxes	73,961	17,573	56,388	73,961	17,573	56,388
17 State Income Taxes	101,272	32,114	69,158	130,630	30,420	100,210
18 Federal Income Taxes	355,076	112,597	242,479	458,010	106,659	351,351
						0
19 Total	5,477,266	1,373,660	4,103,606	5,008,233	1,220,704	3,787,529
						0
20 Net Operating Income	773,290	238,073	535,217	973,103	226,546	746,557
						0
RATE BASE						0
21 2001 - TPIS	20,756,037	4,931,634	15,824,403	19,993,094	4,750,359	15,242,735
22 2003 - TPUC	433,756	103,060	330,696	417,812	99,272	318,540
23 1220 - Mat. and Sup.	427,413	92,278	335,135	411,703	88,887	322,816
23a RTB Stock	91,375	21,711	69,664	91,375	21,711	69,664
24 Working Cash	336,714	80,003	256,711	286,229	68,008	218,221
25 Less: Accum. Depr.	8,964,028	2,165,709	6,798,319	8,910,553	2,152,790	6,757,763
26 Less: Deferred Tax	816,453	204,848	611,605	786,442	197,318	589,124
27 Less: Customer Deposits	2,208	525	1,683	2,208	525	1,683
28 Total Rate Base	12,262,606	2,857,604	9,405,002	11,501,010	2,677,604	8,823,406
29 RATE OF RETURN	**6.31%**	**8.33%**	**5.69%**	**8.46%**	**8.46%**	**8.46%**

APPENDIX D
CALAVERAS TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT ADOPTED RATES
TEST YEAR 2004

		AL 257 CALAVERAS PROPOSED (a)	TD PROPOSED (b)	UTILITY EXCEED STAFF AMOUNT (c=a-b)	UTILITY EXCEED STAFF PERCENT DIFFERENCE (d=b/a)	ADOPTED
Operating Revenues:						
1	Local Rev.	1,175,248	1,175,248	0	0.00%	1,175,248
	Intrastate:					
2	Access Rev.	923,283	923,283	0	0.00%	923,283
3	Toll Rev.	0	0	0	0.00%	0
4	Interstate USF	930,219	1,074,809	(144,590)	-13.45%	1,074,809
5	Interstate Access Rev.	0	0	0	0.00%	0
6	Miscellaneous Rev.	48,444	48,444	0	0.00%	48,444
7	CHCF - A	2,297,102	1,541,847	755,255	48.98%	1,541,847
8	Less: Uncollectibles	(61,862)	(3,862)	(58,000)	1501.81%	(3,862)
9	Total	5,312,434	4,759,769	552,665	11.61%	4,759,769
Operating Expenses:						
10	Plant Specific	857,680	742,687	114,993	15.48%	742,687
11	Plt. Non-Spec.(less Depr.)	255,395	197,941	57,454	29.03%	197,941
12	Customer Operations	464,480	368,741	95,739	25.96%	368,741
13	Corporate Operations	1,158,899	1,006,596	152,303	15.13%	1,006,596
14	Subtotal	2,736,454	2,315,966	420,488	18.16%	2,315,966
15	Depr. & Amort.	999,127	963,614	35,513	3.69%	963,614
16	Other Taxes	56,388	56,388	0	0.00%	56,388
17	State Income Taxes	128,705	120,160	8,545	7.11%	120,160
18	Federal Income Taxes	451,260	421,300	29,960	7.11%	421,300
19	Total	4,371,934	3,877,428	494,506	12.75%	3,877,428
20	Net Operating Income	940,500	882,342	58,158	6.59%	882,342
Rate Base:						
21	2001 - TPIS	15,824,403	15,242,735	581,669	3.82%	15,242,735
22	2003 - TPUC	330,696	318,540	12,156	3.82%	318,540
23	1220 - Mat. and Sup.	335,135	322,816	12,319	3.82%	322,816
23a	RTB Stock	69,664	69,664	0	0.00%	69,664
24	Working Cash	256,711	218,221	38,489	17.64%	218,221
25	Less: Accum. Depr.	6,798,319	6,757,763	40,556	0.60%	6,757,763
26	Less: Deferred Tax	611,605	589,124	22,481	3.82%	589,124
27	Less: Customer Deposits	1,683	1,683	0	0.00%	1,683
28	Total Rate Base	9,405,002	8,823,406	581,596	6.59%	8,823,406
29	**Rate of Return**	**10.00%**	**10.00%**			**10.00%**

APPENDIX E
CALAVERAS TELEPHONE COMPANY
ADOPTED NET-TO-GROSS MULTIPLIER
INTRASTATE REVENUE REQUIREMENT AND CHCF-A SUPPORT
TEST YEAR 2004

1	Gross Revenues		1.0000
2	Uncollectibles		included
3	Net Revenues		1.0000
4	State Income Tax (Tax Rate times ln 3.)	8.84%	0.0884
5	Federal Taxable Income(ln 3. less ln 4.)		0.9116
6	Federal Income Tax (Tax Rate time ln 5.)	34.00%	0.3099
7	Net Income (ln 5. less ln 6.)		0.6017
8	**NET-TO-GROSS-MULTIPLIER (Line 1 divided by Line 7)**		1.6621
	INTRASTATE REVENUE REQUIREMENT		
9	Adopted State Rate Base		$8,823,406
10	Net Revenues Adopted at 1(ROR (line 9 times 10%)		$882,341
11	Net Revenues at present rates		$746,557
12	Change in net revenues (Line 10 less Line11)		$135,783
13	**GROSS REVENUE CHANGE REQUIRED (ln 8 times ln 12)**		$225,683
14	Change in Revenues from Proposed Rate Changes (Net of Uncollect.)		$16,106
	CHCF-A SUPPORT		
15	Revenue Deficit to be Funded by CHCF-A		$209,576
16	2004 CHCF-A Support at present rates		$1,332,270
17	**2004 CHCF-A Support Request**		$1,541,847
18	2004 one-time MCI/WorldCom un-recoverable uncollectibles (non-recurring adjustment)		$31,950
19	**Total CHCF-A Support for 2004**		$1,573,797